

Testimony to House State Affairs Committee on Data Centers

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For more than 40 years, Every Texan has advocated for public policy to expand equity and opportunity for all Texans. We offer trusted research and data-driven policy solutions to ensure every Texan across the state can thrive.

Overview: The Mixed Impact of Data Centers

Texas is home to the second-highest number of data centers in the United States, with 335 data centers currently operating and 248 more in development, according to recent Texas Tribune analysis.ⁱ

Data centers can bring clear economic benefits to a community. A data center typically increases a local property tax base and can increase revenue. Multiplier effects may induce additional economic activity and data centers can create a significant number of temporary construction jobs.

There are also serious downsides. The rapid buildout of data centers in Texas – and the uncertainty around the impacts on our state’s economy, workforce, and resources – has brought controversy and significant backlash. Texans are rightly worried about data centers’ power requirements and costs, impacts on utility pricing, water usage and threats to water supplies, air pollution, noise pollution, infrastructure demands, and other quality of life impacts.

Data centers can bring economic growth, but policymakers must acknowledge the costs and the communities affected. Communities should have the tools to weigh the economic benefits alongside the environmental, fiscal, and other costs that data centers impose. A complete cost-benefit analysis must include both sides of the ledger.

Governor Abbott has finally called for greater oversight and tighter regulations on data centers, offering several common-sense ideas to protect ratepayers, communities, our power grid, and taxpayer dollars. **We thank the Legislature for considering policy responses to Texans’ concerns.**

Every Texan supports:

- **The state sales and use tax exemption for data centers should be eliminated, and local tax incentives should be reexamined.** Data centers are a viable industry in Texas, but do

not need taxpayer handouts. Economic growth brought by data centers is not a sufficient reason to forego tax revenue.

- **Local officials and communities must be empowered with clear authority, greater transparency, and consistent standards** to properly weigh pros and cons and meaningfully address the challenges associated with the rapid buildout of data centers. Communities must benefit from data center development and have the autonomy to act.

State Sales and Use Tax Exemption

Since 2014, data centers have been eligible for a state sales tax exemption on equipment and electricity that is projected to cost \$3.3 billion over the 2028-29 biennium – funding that could otherwise go to schools, health care, or infrastructure. The Comptroller’s web site currently lists 238 eligible facilities.ⁱⁱ A majority of those data centers are classified as “large” and therefore exempt from local sales taxes as well. **Every Texan supports eliminating the sales and use tax exemption for data centers.** If the tax exemption is not eliminated completely, it could be capped, sunset, or time-limited.

Other states are reconsidering their own sales and use tax exemptions. Thirty-eight states offer a sales and use tax exemption for data centers. So far this year, bills have been introduced in 25 states to end or limit those exemptions. Six of those have passed, with Maine becoming the first and only state to repeal all tax breaks for data centers to date. In Illinois, Arizona, and Ohio, governors have enacted moratoria on the sales tax exemption. In Georgia, a 2025 study for the state auditor’s officeⁱⁱⁱ found that 70% of data center projects didn’t need state subsidies and would have located in the state anyway.

Other Fiscal Impacts and Tax Incentives

Recognizing the potential economic benefits of data centers, some communities have offered local property tax abatements to incentivize development under chapter 312, 380, or 381 programs. Information is scarce compared to the state sales tax exemption and understanding the net impact of those local incentives is difficult.

Policymakers should keep the following in mind:

Property tax abatements represent a significant giveaway of tax revenue that is vital for supporting our schools, police, roads, parks, infrastructure, disaster preparedness, and other essential local services. Now, as local governments face budget deficits across the state because of higher costs and revenue limitations, every dollar of public revenue counts more than ever. For years, Every Texan fought Chapter 313 incentive agreements that reduced school property taxes in exchange for business development, and many of those same arguments apply here. That program, now expired, became more controversial as the cost exceeded \$1 billion per year and the point of the program became less clear.

Data centers don't need any more handouts from taxpayers. Often, tax breaks are useful to get a nascent industry off the ground. Research and anecdotal evidence suggest that tax breaks for data centers have helped grow the industry.^{iv} But data centers have clearly become a booming, viable industry in Texas over the last decade and no longer deserve special tax treatment from local governments or the state – especially since the corporations supporting data center buildouts are some of the most profitable on the planet.

Incentives are often unnecessary. Some local governments have offered incentives to developers because they are simply one of the few ways they can regulate data centers. Yet, Texas offers several structural advantages to developers, making incentives relatively unimportant to the site selection process. Cheap land, cheap electricity, a central geographic location with large urban areas and high-speed internet connections, and clusters of hundreds of existing data centers with a support and maintenance structure are already in place and advantageous to developers. Such structural advantages explain why Loudoun County, Virginia, – “Data Center Alley” – still remains a global hotspot for data centers even with high tax rates on data center equipment.^v

“But for” percentages are often much lower than industry represents. Though site selection decisions are often shrouded in secrecy, researchers can estimate the portion of investment likely attributable to an incentive, referred to as “but for” percentages (i.e., investment that would not be made “but for” the incentive). When an incentive is only marginally important to site selection decisions, we should be much more skeptical of the cost.

Data center industry representatives have repeatedly pointed to a 90% but-for figure in Virginia, suggesting that 90% of data centers would not have located in Virginia “but for” the state’s costly sales and use tax exemption. That dubious claim is in fact an erroneous and misleading reference to a Virginia Joint Legislative Audit and Review Commission (JLARC) report that stated “about 90 percent of the industry uses the exemption.”^{vi} That is a wholly different statistic that in no way suggests the exemption tipped the scales for any of those data centers’ site selection decisions.

Meanwhile, the above-mentioned 2025 audit of Georgia’s sales and use tax exemption^{vii} found 70% of data center projects would have located in the state without the exemption, or a 30% “but for.” That is a more reasonable figure, in line with broader research that puts a typical “but for” between 2% and 25%, according to Tim Bartik at the Upjohn Institute for Employment Research.^{viii} Likewise, research in 2017 by University of Texas professor Nathan Jensen found that only 10-15% of site selection decisions under the Chapter 313 program were attributable to those costly and controversial incentives.^{ix}

According to the National Conference of State Legislatures (NCSL), some states are beginning to offer *payments in lieu of taxes* (PILOTs) as an option for companies that want to contribute to their communities.^x Offering these to for-profit (indeed, very profitable) companies makes no



sense and underscores the notion that data centers should simply pay taxes like any other business.

Data centers create few permanent jobs. Studies of data centers in Illinois and Oklahoma have found that a data center may create as few as 10 or 20 jobs,^{xi} while other sources suggest a data center may create between 25 and 125 direct jobs – with many of those being low-paying security or janitorial positions.^{xii} To be eligible for the Texas sales and use tax exemption, a data center must create only 20 jobs; a “large” data center- only 40 jobs.

Construction of a data center can produce temporary jobs, but many of those skilled trades workers often come from outside a community and leave when the project is completed, undermining the goal of local economic development.^{xiii} As for tech jobs, academic research has found little evidence for appreciable growth.^{xiv} In a detailed analysis of NAICS workforce data cross-referenced to data center construction in Texas, economist Michael Hicks found that job growth associated with data centers was effectively canceled out by job losses in other classifications as workers shifted from one sector to another. In Hicks’s words, “there is no discernable net change in jobs associated with the data centers in Texas.”^{xv}

We encourage the Legislature to seek feedback and guidance from workforce development experts to more effectively equip local workers with the skills to build and maintain data center facilities.

A Framework for Data Center Accountability

Every Texan opposes state preemption and strongly supports local control. Protecting the rights of Texans from outside entities is a primary role and responsibility of government.

The Legislature should be establishing guardrails to protect Texans’ rights and quality of life, rather than streamlining regulations. Data center developers have the responsibility to be good neighbors. Communities and their elected officials must be able to collect information, set standards for data center development, and mandate requirements enforcing those standards.

To accomplish this, state policy should empower local officials with **clear authority, greater transparency, and consistent standards** to address the challenges associated with the rapid proliferation of data centers. Until a path forward is clear, we support the governor’s and many others’ recommendation to pause the approval of new data center projects.

Clear authority. Local governments should have sufficient clarity of their existing authority under current law, and the Legislature should consider expanding that authority. With the recent passage of HB 2127 (88(R))^{xvi}, HB 2559 (89(R))^{xvii}, and other laws to tighten state preemption over local measures, some local governments struggle to understand what they can and cannot do. Several communities have attempted data center bans, moratoria, or other actions only for their authority to be called into question by state legislators.^{xviii} Generally, home-rule and

general-law cities can use their zoning and permitting authority as regulatory tools. Counties do not have that option except for a few areas specified in Local Government Code Chapter 231.^{xix}

Clarifying current authority (and possibly expanding it) could materially shift the balance of power back to communities. Important tools might include the following, some of which are mentioned in Gov. Abbott's June 10 letter to ERCOT and the PUC:

- Community benefits agreements requiring data centers to cover electricity, infrastructure, or other costs
- Project labor agreements for better protections and higher wages for construction workers who build data centers. New Jersey now requires data center construction workers to be paid a prevailing wage, and Pennsylvania is considering a similar bill.^{xx}
- Greater authority to plan and monitor water usage
- Noise controls
- Energy efficiency requirements
- Regulation of air quality related to on-site backup power equipment
- Stronger zoning and other land use authority, such as required setbacks from other properties or remediation bonds
- Clearly identifying data centers and project ownership in public hearings and notices

Transparency. Policymakers and everyday Texans need information to make informed decisions. Communities need to know what data centers cost – in tax breaks, water usage, power usage, and more – to weigh those costs against the benefits. They also need to know the businesses or other entities that are behind the construction of data centers. One option is to prohibit or otherwise restrict the use of nondisclosure agreements (NDAs), which have frequently been employed to keep community members in the dark about the scope and impacts of data center developments. Depending on what policies are passed at the state level, local governments could require increased disclosure about planned data centers' power usage, on-site power generation or other off-grid arrangements, backup power production, and water usage. Additionally, the Legislature or Comptroller's office could direct or conduct a study.

Every Texan would likely support Governor Abbott's demands that require more transparency from the state for proposed data centers :

- What public funds they will be receiving
- How much publicly provided power and water they will be using
- Who owns the facilities
- How they plan to reduce impacts on neighboring communities

Consistency. More recently, data center developers have been attracted to rural areas for cheaper land and more space. The governor and some lawmakers have specifically voiced concern for harms to rural communities, and we are skeptical of Gov. Abbott's call for a ban on

data centers in “rural Texas neighborhoods.”^{xi} Data centers can harm *all* communities. We are concerned that a ban on rural data centers would simply encourage more data center development in low-income urban or suburban areas, many of which are already distressed economically and environmentally. Any new authority provided to local governments to stop, pause, or restrict data center development should be made available to *all Texas communities*, not just wealthy or politically-favored ones.

Ultimately, we are all in this together. State policymakers must recognize that local incentives, regulations, or preferences may pit counties or cities against one another, and that the many negative externalities of a data center can extend far beyond a community’s borders.

Editor’s Notes:

Every Texan works in an ecosystem of evolving policy work. As conditions and factors change, research and analysis may be updated and republished to respond appropriately.

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ⁱ <https://www.texastribune.org/2026/06/26/texas-data-center-guide-what-you-need-to-know/>

ⁱⁱ <https://comptroller.texas.gov/taxes/data-centers/data-center-lists.php>

ⁱⁱⁱ <https://www.audits.ga.gov/ReportSearch/download/33298>

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- ^{iv} https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5881105
- ^v <https://goodjobsfirst.org/virginias-data-center-tax-break-isnt-competitiveness-its-a-billion-dollar-giveaway/>
- ^{vi} <https://jlarc.virginia.gov/pdfs/reports/Rpt598.pdf>
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- ^x <https://www.ncsl.org/fiscal/subsidizing-servers-how-states-are-competing-to-attract-data-centers>
- ^{xi} <https://www.ncsl.org/fiscal/subsidizing-servers-how-states-are-competing-to-attract-data-centers>
- ^{xii} <https://goodjobsfirst.org/will-data-center-job-creation-live-up-to-hype-i-have-some-concerns/>
- ^{xiii} <https://www.nytimes.com/2024/12/25/technology/ai-data-centers-electricians.html>
- ^{xiv} https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5881105
- ^{xv} <https://michaeljhicks.substack.com/p/data-centers-and-local-job-creation>
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